CA2ON
Z 1
-63A22

JAN 20 1964

54-10

(C O P Y)

THE BOARD OF TRADE OF METROPOLITAN TORONTO

January 16, 1964.

Mr. Lancelot J. Smith, Chairman,
and Members of The Ontario Committee on Taxation.

Gentlemen:

The Board of Trade of Metropolitan Toronto welcomes this opportunity to submit its views concerning the incidence and effects of taxation imposed by the Ontario Legislature.

It is desired initially to acquaint you with the nature and extent of the Board's membership. Our membership consists of more than 10,000 persons representing large and small business firms engaged in all phases of business activity and the professions. While this membership is concentrated mainly in the Toronto area, the larger member firms conduct businesses which in numerous cases are provincial or national in scope, or extend into the area of international trade. In view of the nature of its membership, the Board believes that it can claim fairly to represent the views of a major cross section of the business and professional interests of the Province.

Expenditures

The Board appreciates the pressures brought to bear against the province to increase expenditures. Any one objective to be attained through increased spending may be laudable. But all of these objectives must be measured against the necessity of having to live within our means. In the past 10 years, personal incomes in Ontario have about doubled, whereas Ontario government expenditures have about tripled. This difference in rate of increase has resulted in additional taxation. When spending is increasing more rapidly than income, a problem requiring solution presents itself. A cut in rate of spending is certainly a first step to take and, perhaps,

the only step available if income cannot further be increased. Moreover, the Board considers it to be of the greatest importance that unexpected windfalls such as a greater yield from a tax than that estimated, should not be influential in determining the merits of any scheme involving an increase in expenditure. Instead, available revenues should be applied to the reduction of the tax burden. Tax relief is needed urgently to improve our rate of economic growth and to promote increased capital formation. Their accomplishment would further reduce unemployment in Ontario and improve our competitive position in the domestic and external markets.

Ontario Corporation Tax

The Board has urged on numerous occasions that the Province cease to levy any tax on corporate profits additional to the amount allowed as a deduction from Federal tax on corporate profits and so recommends again at this time. If this proposal were implemented, there would not be need for the Province to call for returns as to corporate profits. Such a step would be in conformity with the growing body of opinion that corporate profits are taxed too heavily and that a reduction would strengthen the forces of economic expansion and result, although not initially, in a net gain in taxation revenue. Moreover, the two per cent charged in excess of the Federal abatement represents a disincentive to the location of industry in this Province and for this reason alone it should be discontinued.

Failing the implementation of this proposal, the Province should accept the Federal offer to collect tax on corporation profits in Ontario so that there will only be tax collection at one point, with complete uniformity in all respects, save possibly for the rates of tax imposed by the Province.

In the event that it is not possible to accept the Federal collection offer, all necessary steps should be taken to assure quick implementation in the Corporations Tax Act

of the Federal Income Tax Act amendments affecting the taxability of corporations. Delays in the implementation of such amendments cause serious difficulties in corporation planning.

Capital and Place of Business Taxes

Corporate tax payers should not be required to file more than one tax return or to have more than one jurisdiction with which to take up objections to, and appeals from, assessments. Ontario corporations are subjected to substantial additional costs in the administration of capital and place of business taxes which yield annually approximately $2,500,000. The Board submits that the savings in costs now incurred by business and government in their payment and collection would at least offset the cost of their removal.

Security Transfer Tax

This tax has been in effect for over 20 years. As a producer of revenue it has not been very significant. In 1961-62 its yield was slightly more than $3,500,000.

Although its impact as a producer of revenue is almost negligible, it looms more significantly in the mechanics of capital formation. There is hardly any market for short term notes after issue since the tax in most cases would equal the dealer's normal spread. In some instances extra-provincial security transactions involving an Ontario broker may be subject to the tax. More than one incidence of the tax on dealers occur where title to the security is transferred between them before it reaches the hands of the ultimate investor. This method of transfer is becoming more frequent because of the exigencies of the trade.

The Board submits that the Security Transfer Tax Act should be studied to determine the necessity for its retention and, should it be retained, it should be amended to take into account the current operating practices of the investment industry.

Logging Tax

So far as tax pay-outs are concerned, the forest industry is no longer affected by the Ontario logging tax

Digitized by the Internet Archive
in 2025 with funding from
University of Toronto

https://archive.org/details/submissionstaxat054onta

when account is taken of the tax credits available for application against Federal and Provincial taxes on income. Nonetheless, returns and information still have to be made out and filed under the Logging Tax Act. Such requirements represent to the forest industry an additional cost in carrying on business.

The tax credit given by the Federal Government should be negotiated with a view to its being replaced by a payment to Ontario equal to the credit, consequent to the repeal of the Logging Tax Act. This would mean no adverse change in the revenue position of either the Federal or Provincial government, and result in the elimination of a non-productive cost imposed on Ontario's forest industry by the Logging Tax Act.

The Gasoline Tax

The Gasoline Tax has been traditionally related to highway costs,and rebates from this tax have been granted traditionally to those who use gasoline in ways that are not related to such costs. However, when the last additional 2¢ per gallon tax was added to the Gasoline Tax, this increase was not made refundable in the case of equipment not used on the public highways. The forest, mining and many other industries have been affected. The Government is urged, therefore, to restore the traditional practice of granting rebates on the full amount of the Gasoline Tax in the case of equipment which is not used on the public highways.

The Hospital Tax

In submitting the following proposals regarding the Hospital Tax, the Board commends the Government for the partial relief accorded the motion picture industry in 1962 but maintains its previous position that motion picture theatres should be exempted from tax under the Hospital Tax Act.

Motion picture theatres are experiencing intense competition from television. Attendance has fallen off materially and more than 30% of regular theatres in Ontario in

1955 have ceased to operate since that date.

The effect of the tax is most severe in the case of the small family-operated theatre. In operations of this size, the amount of the tax usually runs from $3,000. to $4,000. per year. Frequently this amount of money means the difference between the owner continuing to carry on or going out of business. While the tax is imposed in the form of the theatre owner collecting the tax from the customer, owing to the present competitive position the theatre owner in practice has to absorb the tax in order to maintain patronage.

This tax is discriminatory in that it has selected one form of retail business for a special impost. No special services are rendered the theatre owners in return for this impost. In contrast, the publicly owned and operated sector of television, a principal competitor of the motion picture theatre, has been substantially subsidized and not subjected to comparable taxation. Theatre admissions should be exempted from this tax where the price of admissions does not exceed a specified amount. This would leave theatre admissions subject to the tax for showings which are large-scale productions and are not affected adversely by other forms of entertainment in light of the fact that they are usually on a reserved-seat basis.

Ontario Succession Duties and Federal Estate Taxes

The Board favours the withdrawal of the Province from the Succession Duty field. This can be done with little, if any, revenue loss to the Province in view of the compensation from the Federal Government available upon the Province withdrawing from this tax field. Any loss would be largely offset by elimination of the present expense of administering and collecting succession duties. Moreover, any decrease in revenue that might be experienced would largely be occasioned by the elimination of double taxation on Ontario taxpayers and, for that reason alone, the relief proposed is desirable.

Our tax laws have been described as contrived to

stimulate sell-outs, particularly of the family controlled business. The problem of meeting succession duties and estate taxes is the dominant tax factor in this regard. In view of these issues, this Board deems it most urgent to eliminate the duplicate taxation involved in Ontario remaining in the succession duty field.

If, however, it should be the decision of the Ontario Government to continue to levy Succession Duties, the Board urges that the Ontario Succession Duty Act be studied with a view to determining the amendments necessary to co-ordinate the Ontario legislation with the Federal Estate Tax Act, and, in particular, matters of assessment and determination of tax.

A significant improvement could be achieved by adopting a method of establishing the rates of duty similar to that used in the Federal Estate Tax Act. If the rate of duty levied in respect of dutiable property were to be determined by reference only to the aggregate value, less statutory deductions, rather than by also taking into account the relationship of the beneficiary to the deceased and the amount passing to each beneficiary, the problems involved for an individual in planning his estate and in making proper provision for the payment of duties would be greatly reduced. Further, this would reduce administrative problems, including assessments.

The historic concept underlying succession duty rates in Ontario has been that they should be progressive in rate in relation to the size of a beneficiary's interest and to the degree of relationship of the beneficiary to the deceased. The underlying purpose has been to protect the immediate family unit.

As to testate estates, however, in practice this object has not been attained in most instances. Invariably, in the case of estates large enough to be subject to succession duty, professional advice leads, for a variety of reasons, to making specific bequests free of duty and charging the whole

duty against the residue of the estate. Almost invariably, the beneficiary entitled to the residue of the estate stands in the closest relationship to the deceased. Consequently, so far from affording the lowest rate of succession duty to the nearest relatives, in practice the nearest relatives are usually subjected to the highest rate of succession duty applicable to that estate.

In the case of persons dying intestate, this point could not arise for all heirs, being of the same degree of relationship, would be subject to the same rate of duty.

The Province should not levy duty in respect of property situate in other Provinces of Canada. In view of the position of other provinces in this field of taxation, it seems that overlapping duty and estate tax will result in any case where one province levies duty in respect of property situated in another province. Accordingly, the Board urges that the Succession Duty Act be amended so as to no longer subject to Ontario duty personal property situated in other Provinces of Canada passing on the death of a person, or which was disposed, to a beneficiary resident or domiciled in Ontario.

Federal-Provincial Secretariat

The Board believes that it is vital to the economic health of the nation that there be continuing liaison between the different taxing authorities to the end that the optimum results may be achieved with the minimum dislocation and expense to the taxpayer. The Board does not advocate any constitutional amendments affecting the taxing powers of the provinces. It does however, recommend that the Committee should carefully consider the advisability of establishing a Federal-Provincial Secretariat which, as one of its tasks, would study the economic policies and fiscal needs of Canada and the individual provinces.

It is contemplated that such a Secretariat would normally operate in camera and that its reports and recommendations would be made direct to the responsible Federal and Provincial Ministers. Such a Secretariat should be a creature

of the Federal and Provincial Governments jointly, and should have as its primary responsibility the task of considering and advising on proposals designed to take into account the varying circumstances and objectives of the different Governments. Its terms of reference should extend to taxation in relation to the economy of the country as a whole at all levels of government. The Secretariat should have a research staff of its own and work in the closest co-operation with the officials and advisers of all governments and organizations and interests that have a direct interest in taxation. There should be frequent and regular contacts between the Secretariat and political representatives of governments such as the Ministers of Finance and National Revenue and Provincial Treasurers.

The findings of such a Secretariat should promote a better understanding on the part of all governments in Canada of the economic and fiscal problems of each level of government and the most appropriate taxes at each level to raise the revenue required. This would be conducive to a more uniform conception of the system of taxation most suited to the economy of this country.

The constitutional division of taxing powers among the various governments in Canada in itself establishes a need for such a body. The tax burden on the Canadian economy has become so heavy that it cannot fail to have serious and unnecessarily adverse effects on our economy if our taxes are not properly co-ordinated. While it is desirable that direct taxes be dealt with by only one level of government, it may be that, in the event, one or more of the direct taxes will come under two levels of government. Should the latter be the case, the need for a Secretariat, such as that proposed will be greater.

The Board in putting forward the above proposal recognizes that it is general in character and that its application will involve further consideration by the Federal and Provincial Governments with consequent adjustments in detail.

Real Property Tax and Provincial Grants

The real property tax has been traditional as the primary source of satisfying local revenue requirements in Ontario. It has increased significantly over the years in terms of dollars extracted from the taxpayer. However, since other sources of revenue have increased as well, the proportion of property tax revenue (about 75%) to other forms of revenue has remained about the same. From the taxpayer's point of view, it must be admitted that the proportion real property tax bears to personal income has not increased significantly. Moreover, the taxable capacity of real property has likely not been reached since tax collected in the year of levy has, in Ontario, stayed at over 98% for the past several years. Although the amount not collected may not be attributable entirely to collection procedures, it seems that taxpayer resistance to municipal taxation has not reached significant proportions. But the availability of further taxable capacity should not, in the Board's opinion, belie the fact that real property as the main basis of municipal taxation results in the inequity of those municipal services, which relate primarily to people generally,being paid for by real property owners in particular. Welfare,education and roads are the most important in this regard. The City of Toronto's 1961 budget revealed that close to one-half of total outlay was for these items. Provincial grants have not yet increased to the amount sufficient to remove this inequity.

On the other hand, when account is taken of the present high rates of federal and provincial taxation, the Board believes that an increase in grants is not now appropriate. It is the Board's view that a significant increase in grants to municipalities, accompanied by a corresponding increase in provincial taxes, would adversely affect the economic growth of the province. What is really needed is provincial tax relief accompanied by federal tax relief. Should such occur, rapid economic expansion would follow. In the long run, provincial tax revenues would increase and ultimately the

province would be in a position to assume a greater jurisdiction over education, welfare and roads and proportionately more responsibility for their financing. This ultimate shift in tax incidence from the municipal taxpayer to the provincial taxpayer would bring about a more equitable distribution of the tax load required to pay for these services.

The Board is concerned by the apparent policy that grants-in-aid to municipalities are designed to relieve the farmer and residential taxpayer with no corresponding relief to the industrial and commercial taxpayer, e.g. The Residential and Farm School Tax Assistance Grants Act. This form of discrimination is made worse by the fact that a substantial part of the grant moneys is collected from the commercial and industrial taxpayer by way of provincial taxation of corporate profits.

Business Assessment

Business assessment is determined according to a percentage of the real property assessment; the percentage depends upon the class of business being assessed. The percentages for the various classes of business were fixed in 1905 and have since remained unchanged. The Board fails to see any validity today in the various percentages (whatever validity there may have been in 1905). They do not reflect any reasonable approximation of ability to pay nor do they pertain to the services rendered the business by the municipality. The Board believes that a standard rate should be fixed. However, since this tax is considered a cost item in business pricing policies, any sudden and significant change in rates might seriously affect some types of businesses as well as those municipalities where one or a few classes of businesses predominate. The Board advocates a stage by stage reduction, over a period of years, in the number of separate classifications and a narrowing of the differences in the rates of each class.

Other Sources of Municipal Revenue

The limited territorial areas of municipalities make effective administration of non-property taxes difficult and invite tax differentials affecting the location of businesses or property development. In view of the over-all burden of the tax responsibility of business to all levels of government, no new form of tax should be imposed on business at the municipal level. The Board would be most strongly opposed, for instance, to municipalities being given recourse to any form of taxation approaching a re-entry into the income tax field such as a turnover tax or a tax on gross receipts. Finally, it is not desirable that license fees should be employed as a source of revenue as distinguished from defraying the cost of services to the licensees.

Respectfully submitted,

(A. Y. EATON)
2nd Vice-President.

(J. W. WAKELIN)
General Manager.